

cash management
CASH EXTRACTION

Flying home



Generating revenue and cashflow is at the core of every business. Ensuring that the corporate has adequate funds to run the business, meet operating expenses, and pay shareholders and debt holders is a key task and one that must be done as efficiently as possible.

The treasury department must be able to facilitate the flow of cash around the company with an agreed strategy that allows the distribution of funds to be managed effectively.

David Swann, Group Treasurer at British American Tobacco, says: "BAT is such a far-flung group. We are listed in the UK and we pay dividends in the UK in sterling, and we make pretty much all of our money outside the UK. Therein lies the challenge.

"You are having to move the cash in several different currencies, in several different jurisdictions and regulatory environments, to the centre on a regular basis."

Over the years, as businesses have become global entities operating in jurisdictions all over the world, treasury departments have evolved to cope with the pressures of multiple-location businesses. Centralising the cash on a regular basis is in many cases the most effective method of getting cash to where it is needed.

THE CLASSIC SOLUTION Michael Turner, Head of Global Cash Management Sales at Fortis Bank, says: "While the classic solution is a zero-balancing cash concentration – whereby everything is centralised into a single account, in a single jurisdiction, with cash swept daily – a company needs to consider how this affects the business."

Turner believes that treasurers should consider carefully how this method impacts inter-company interest.

He says: "Every time they create a transaction between a subsidiary and a parent or vice versa, they have got to do administration and effectively a company loan."

The emphasis is on the availability of cash. Swann argues that the ability to extract and move cash around the company is at the heart of what the treasury team does for a company.

He says: "This is what treasury is all about. It is about making sure that our cash is here, ready to pay shareholders and our debt holders. We manage the cashflows around the location of debt we have, both in terms of interest and capital repayments."

COMMUNICATION IS THE KEY Swann argues that communication is a core skill in matching the cash to the liabilities of the company.

He says: "How we communicate the dividend policy to the subsidiaries is important, making sure that people are on top of paying their dividends. We make sure that we utilise cash balances as much as possible."

BAT operates in 180 different markets in different regions which all present their own problems in terms of political environment and regulation. Combined with varying levels of development of cash management processes and systems, these pressures mean that some cash is trickier to move from one jurisdiction to another.

Swann says: "We have a very rigorous way of categorising cash. The categories range from freely available liquid funds to blocked cash. At the end of 2005 we had only a modest amount of blocked

**JULIA BERRIS TALKS TO
TREASURERS AND BANKERS
ON HOW TO KEEP
THE CASH FLOWING.**

Executive summary

- The ability to extract and move cash around the company is at the heart of what the treasury team does for a company. It is the treasurer's classic role and one which, despite modern technology, still requires strong planning and good communication from centre to subsidiary.

cash, especially when you consider the total cash position amounted to £1.8bn – not bad considering we operate in 180 different countries.”

The differing corporate structures can be a challenge and can create complexities for treasurers that can be very difficult to overcome.

International brewer Scottish & Newcastle has grown hugely over the past five years. Once a UK-centric pub landlord and owner of Center Parcs and Pontins, it is now a beer company with subsidiaries and joint ventures in many countries.

John Jackson, Group Treasurer at Scottish & Newcastle, says: “Europe is relatively straightforward now. It really depends on where the company is in its life cycle. Our business in Russia is extremely profitable, relatively mature and generating cashflows.”

Jackson says Scottish & Newcastle's operations in emerging markets such as India and China present more problems for the company.

He says: “The brewing market is still developing in these places and therefore the cash has not been generated yet.”

SUBSIDIARIES VERSUS JOINT VENTURES Scottish & Newcastle has wholly owned subsidiaries as well as a series of joint ventures in several regions. Cash management operates in a very different way for joint ventures. The cash from wholly owned subsidiaries is centralised in the UK via a notional pooling system, but surplus cash is centralised and brought back to London on a daily basis.

Jackson says: “It is a very different matter for joint ventures. We don't sweep cash into the middle. Cash management is the

responsibility of the joint venture, so there are a number of legislative and political considerations.

“As a company you don't have complete control over these entities. You have to consider the joint venture partners and any other issues in that country. It is a different way of working and we have to accept the conditions that we are given. You will not get the same kind of control over cashflows.”

Turner identifies corporate culture as important for how cash generated by subsidiaries is treated, used and moved within the group.

He points out that to maximise a company's cash position, the buy-in of subsidiaries is necessary.

He explains: “If subsidiaries see themselves as autonomous units, and this is not true of the wider corporate ethos, optimising cash management can prove difficult.

“Cash is ultimately a corporate asset but the treasurer has to have the backing at corporate level. If local financial controllers believe that cash belongs solely to the local subsidiary, and the treasurer wishes it to be centralised for the benefit of the group, it will be challenging to implement a cash management structure.”

Turner argues that the way cash from subsidiaries is managed has to be agreed on by the board and communicated effectively with the financial controllers at the subsidiaries.

He says: “The treasurer needs the support from the organisation and the recognition of the importance of the role of cash management in the company structure. It is about educating the board.”

Swann explains that information on short-term cash positions is sent from the larger subsidiaries every day.

CENTRE WORKING WITH SUBSIDIARIES Swann says: “We have a number of people working on cash management in the treasury team at the centre but we work as a team with the people in the subsidiaries.

“The treasury service centres which operate within the group deal with daily cash movements, and it is then that it is decided to invest or fund the resulting balance on a daily basis.

“For the longer term, we forecast what we expect profits to be and what the expected dividends are. We do this so that we can position ourselves for the medium- and longer-term rather than just day by day.”

Setting up shop in a new market is made difficult by restrictions imposed by regulation in terms of tax and other legal requirements.

Jackson says: “There are quite a few regulations relating to money laundering, so you can't just set up a new bank account. You have to get clearance from the bank. You also have to make sure that you don't have any problems with withholding tax or any exchange controls. It would be something that we would work very closely with the banks on.”

The process by which capital is utilised within the company or group makes the role of treasurer what it is today. As companies continue to expand internationally, business structures become more complex and the pressure to deliver results increases, this role will become even more important.

Swann says: “It is about being efficient with the use of capital resources. The resulting treasury organisation really derives from how you move cash around the group. We never lose focus on what we are doing, making sure we have cash at the right place, right time, in the right currency while optimising risk.”

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